

VZCZCXRO1384  
PP RUEH DU RUEHMR RUEHRN  
DE RUEHSB #0914/01 2821510  
ZNY CCCCC ZZH  
P 081510Z OCT 08  
FM AMEMBASSY HARARE  
TO RUEHC/SECSTATE WASHDC PRIORITY 3548  
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE  
RUEHUJA/AMEMBASSY ABUJA 2094  
RUEHAR/AMEMBASSY ACCRA 2341  
RUEHDS/AMEMBASSY ADDIS ABABA 2459  
RUEHBY/AMEMBASSY CANBERRA 1737  
RUEHDK/AMEMBASSY DAKAR 2092  
RUEHKM/AMEMBASSY KAMPALA 2513  
RUEHNR/AMEMBASSY NAIROBI 4945  
RUEAIIA/CIA WASHDC  
RUEHGV/USMISSION GENEVA 1608  
RHEHAAA/NSC WASHDC  
RHMFISS/JOINT STAFF WASHDC  
RUEHC/DEPT OF LABOR WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEFDIA/DIA WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK  
RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

C O N F I D E N T I A L SECTION 01 OF 04 HARARE 000914

SIPDIS

AF/S FOR B. WALCH  
AF/EPS FOR ANN BREITER  
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN  
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN  
TREASURY FOR D. PETERS  
COMMERCE FOR BECKY ERKUL  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS

E.O. 12958: DECL: 10/08/2018  
TAGS: [ECON](#) [EFIN](#) [ASEC](#) [PGOV](#) [ZI](#)  
SUBJECT: DIRE PAYMENT SITUATION QUICKENS PACE OF ECONOMIC  
DECLINE IN ZIMBABWE

REF: HARARE 865

Classified By: Charge d'Affaires, a.i. Katherine Dhanani for reason 1.4  
(d)

-----  
SUMMARY  
-----

1. (C) Measures taken by the Reserve Bank in the last weeks to quell unrest over cash availability and to stop the precipitous loss of value of the local currency have not stabilized the situation. Hyperinflation is eroding the value of cash, and the local currency is losing its value as legal tender due to cash shortages, a shortage of goods to purchase in local currency, and the suspension of inter-bank transfers. The Reserve Bank is seeking to channel transactions to checks, but checks, now under price controls, are no panacea either, as banking systems are unlikely to be able to cope with a surge in their use. Isolated incidents of violence have occurred in the last weeks at banks as they failed to meet cash demand, and riot police now oversee many bank lines. The Reserve Bank's policies are unsustainable, undermining business activity, and quickening the pace of decline. But we expect confrontation-averse Zimbabweans to "make a plan" to cope through emigration, reliance on remittances, or increased bartering and trading, rather than take to the streets. END SUMMARY.

-----  
Treating the Symptoms  
-----

2. (U) Measures taken by Reserve Bank of Zimbabwe (RBZ)

Governor Gono in the past two weeks to quell unrest over the low cash withdrawal limit and to slow the pace of devaluation of the currency have not stabilized the situation. On the contrary, the rate of inflation, which some private sector observers put at several hundred billion percent or higher, instantly erodes the value of the new twenty fold higher cash withdrawal limit of Z\$20,000 (roughly US\$4 on the street) introduced on September 29 and the value of the new Z\$20,000 note issued by the RBZ on the same day.

-----  
Inter-Bank Transfers Suspended to Thwart Black Market  
-----

13. (C) On October 3, the RBZ also suspended the use of inter-bank transfers in an apparent attempt to slow the breathtaking rate of devaluation of the local currency on the parallel foreign exchange market for bank transfers and shut down a flourishing vehicle for illegal currency exchange that was driving up prices. During September 2008 alone, the Zimbabwe dollar lost 99.4 percent of its value against the U.S. dollar. The suspension has left the public dependent on three means of transactions: cash, debit cards, or checks. In regard to cash, the RBZ cannot keep up with spiraling demand. Additionally, confidence in cash is waning because the new Z\$20,000 notes, released to coincide with the higher withdrawal limit, are printed--apparently locally (Reftel)--on bond paper and without a watermark, security strip, or microfibers. Leaflets have appeared in downtown Harare's parks and near banks this week stating that the

HARARE 00000914 002 OF 004

Z\$20,000 note was "fake money printed on cheap paper and it is now being produced in tonnes," and demanding Governor Gono's resignation. Debit cards are nearly useless for lack of consumer goods to purchase in local currency, leaving the public facing no apparent alternative for transactions but checks.

-----  
Checks No Panacea for Cash Shortage  
-----

14. (C) Checks, however, take four days to clear within Harare, seven days nationally, and 21 days if drawn on a building society. Rosinah Hove, Finance Director of checkbook printer Celsys, called them "an administrative nightmare" especially in times of hyperinflation when they frequently bounce. She predicted that vendors would jack up prices to compensate for the lag in clearance, or simply refuse to accept checks. John Mushayavanhu, Vice President of the Bankers Association of Zimbabwe, told us that banks had stopped investing in check processing equipment since transfers had grown more popular. Furthermore, according to Kevin Terry, CEO of CABS, and confirmed to econ specialist by Alice Zanza, Senior Division Chief, National Payments Systems at the RBZ on October 7, Zimbabwe's check clearing system is incapable of handling the immense number of checks that the banks anticipate processing.

15. (C) Compounding the problem, the RBZ set a ceiling this week on prices for bank services, including a cap on the price of checkbooks and bank checks to ensure their affordability. Under these conditions, Hove said banks would have to subsidize three quarters of the price of checkbooks for their clients. Until the pricing issue was resolved, Hove said the supply of bank checks and check books would quickly run out. On October 7, Terry said CABS nationwide had no more than a 2-3 day supply of bank checks.

-----  
Isolated Violence at Banks  
-----

16. (C) Long lines for cash continue to form at banks and have become a potential flashpoint for unrest. Cynthia Ruzvidzo,

PA to the Finance Director at Beverley Building Society, confirmed to econ specialist a melee at the building society's main office in Harare during the week of September 29 when a soldier attempted to jump the line. The press reported that police dispersed an unruly crowd of protestors at the Bulawayo branch of the RBZ at about the same time. An angry crowd broke a window at a CABS branch in the town of Chinhoyi in the same week, according to Terry. He added that on the evening of September 30 at the downtown Harare Park Street CABS branch customers had smashed a bank window after failing to get any cash the whole day. Riot police broke up the scene and baton wielding police are now stationed at all CABS branches. (NOTE: As a building society, CABS may not issue checkbooks to its clients, which leaves its deposit holders especially reliant on cash withdrawals now that inter-bank transfers are prohibited. END NOTE.)

17. (C) On October 7 about 600-700 people were lined up at the same Park Street CABS branch. Embassy commercial specialist observed police and soldiers trying to maintain

HARARE 00000914 003 OF 004

order as those at the front of the line charged the entrance to the bank. A block away, about 100 customers lined up for cash at a branch of FBC bank. At the First Street branch of CABS, about 800 people waited under the eye of riot police, and a further 300 customers gathered at the Fourth Street CABS branch. Long lines also formed at the ATM machines of commercial banks in downtown Harare.

-----  
"Murambatsvina" Against the Formal Sector  
-----

18. (C) Former University of Zimbabwe Economics Professor Rob Davies told economic specialist on October 7 that he no longer regarded the local currency as a medium of exchange in Zimbabwe: The RBZ had stopped bank transfers in Zimbabwe dollars; it had put a lid on the release of cash to the public; and inflation had wiped out the value of cash. In his view, Gono was counting on channeling the retail trade into foreign exchange shops, while taking a cut from the hefty forex fee for every outlet licensed. Davies called the RBZ's assault on the money transfer system the formal sector equivalent of Operation Murambatsvina in 2005 that had sought to wipe out the informal sector.

19. (C) Davies noted that while individuals and businesses tended to find ways to deal with chronic high inflation, coping mechanisms began to fail in the face of hyperinflation. In Zimbabwe, more and more businesses were in dire straights and considering closure. Meeting the high cost of severance pay was becoming a more attractive option than carrying the payroll of a nonproductive workforce. CABS's Terry predicted that the RBZ's latest destabilizing measures would lead to a faster pace of dollarization of the economy, but noted that the average Zimbabwean could not access enough foreign currency cash to meet his daily needs. He regarded the cash shortage combined with the clampdown on transfers and lack of checks as "a touch point for rioting" and predicted that the economy would grind to a halt in the next few days for lack of transaction vehicles.

-----  
COMMENT  
-----

110. (C) Misguided GOZ policies have driven the economy to the brink before, only to have Governor Gono tinker around the edges and release some steam, albeit at the expense of growth. But as Professor Davies pointed out, government and the private sector alike have far fewer coping options under hyperinflation than under chronic inflation, and Gono has fewer resources than ever to hold the house of cards erect. The RBZ's policies are unsustainable and quickening the pace of decline.

¶11. (C) We question Terry's opinion that the current situation could be "a touch point for rioting." Since 1998 food riots occasioned by a lack of bread, Zimbabweans have demonstrated an aversion to confronting or provoking authority. While sporadic incidents at banks may continue on the part of frustrated customers, in general we expect Zimbabweans to "make a plan" to cope through emigration, reliance on remittances, or increased bartering and trading.  
END COMMENT.

HARARE 00000914 004 OF 004

DHANANI